



955 Jefferson Ave.
Valley Forge Corporate Center
Norristown, PA 19403-2497

October 11, 2005

Mr. Harry Stoller
Director, Energy Division
Illinois Commerce Commission
Leland Building – 527 E Capitol Avenue
Springfield, IL 62701

Dear Mr. Stoller:

In response to your request, PJM Interconnection (PJM) has the following comments regarding the April 2005 Draft entitled "Evaluating the Potential Impact of Transmission Constraints on the Operation of a Competitive Electricity Market in Illinois".

Although the Draft may have some academic value in helping to determine if the transmission system in Illinois and surrounding region would be able to support a competitive electric market, allow for effective competition to keep prices in check and allow new market participants to effectively compete for market share, the Draft clearly is out of date, makes some faulty assumptions and fails to recognize the market design, market rules and the market monitoring activities of the regional transmission organizations (RTOs) which operate in Illinois today. It also fails to consider the actual experience of the transmission system operations and electricity markets which now are applicable to Illinois, are regional in nature and have significantly opened access to the Illinois electric marketplace for electric suppliers, load serving entities and other participants in the Illinois and Midwest electricity market.

The Draft states that it is not intended "to predict whether or not market power would be exercised by any company" in Illinois but rather "to determine if a set of reasonably expected conditions could allow any company to do so". The Draft is based on a set of assumptions that "were not intended to represent the predicted, most likely or optimal set of conditions for the Illinois market. Rather they were intended to test how the market might behave under a given configuration". It is important to keep these cautionary notes in mind when reviewing the Draft and its Observations and Conclusions.

The Draft Is Clearly Out of Date

PJM became the reliability coordinator for the ComEd transmission system in February, 2003. PJM became the control area operator of the ComEd electric transmission system May 1, 2005 and ComEd then began to participate in the PJM electricity market. The Midwest ISO (MISO) became the reliability coordinator for the transmission system for much of the remainder of Illinois in May, 2004 and most of the remaining electric utilities in Illinois began participating in the MISO energy market April 1, 2005.

The Draft assumes there will be a single RTO in the state which is not an accurate assumption. Also, the actual, real life data for transmission system and market operations of PJM and MISO were not considered in the Draft.

The Draft Contains Faulty Assumptions

The Draft includes a rather abstract modeling of the energy supply and markets outside of Illinois. Within Illinois as noted above the Draft assumes a single, Illinois-only RTO rather than the much broader markets made available by PJM and MISO. The Illinois only RTO modeled in the Draft assumes a "wild west" scenario which does not have any of the market power mitigation tools possessed by either the PJM or MISO currently in place in the forms of market design, rules for market participants or rules pertaining to market power. As such it is a study of how an Illinois-only RTO would be absent the market infrastructure possessed in PJM and MISO. It also overlooks the market monitoring initiatives of the Federal Energy Regulatory Commission.

With the initiation of the PJM electricity market in Northern Illinois in May, 2004 and the MISO energy market in most of the remainder of Illinois in April, 2005 the ability for market participants to buy and sell in a transparent market and to move energy over transmission lines that are operated on a non-discriminatory basis has been radically changed and enhanced. Likewise, the ability of the two RTOs which operate in Illinois to monitor activity by generator, load serving entity, node, et al has been significantly expanded. No mention is made of these significant initiatives or of the actual experience which has occurred since these initiatives were implemented.

The Draft Fails to Consider Actual Experience in Illinois

Enclosed is the almost 350 page 2004 *State of the Market* report (in disk form) published by the PJM market monitoring unit March 8, 2005. Similar PJM State of the Market reports are available on the PJM website for prior years. The PJM market monitoring unit report assesses the state of competition in each market operated by PJM, identifies specific market issues and recommends specific enhancements to improve the competitiveness of the PJM electricity market. The report is based on the actual experience in the PJM market, which after May 1, 2004 included ComEd, rather than various academic assumptions. It also takes into account the activities of the PJM market monitoring unit (MMU).

The 2004 State of the Market report contains several conclusions which I will only briefly summarize.

These include the following:

- The MMU concludes that, despite concerns about market structure, the PJM Day-Ahead and Real-Time Energy Market results were competitive in 2004. (page 23)
- Analysis also indicates that the ComEd Control Area was highly concentrated overall and in each segment of the supply curve. No evidence exists, however, that market power was exercised in these areas during 2004, both because of generator obligations to serve load and because of PJM's rules limiting the exercise of local market power. (page 24)

Mr. Harry Stoller
Page Three

- Price-cost markups are a measure of market power. Overall, data on the price-cost markup are consistent with the conclusion that PJM Energy Market results were reasonably competitive in 2004. (page 25)
- When increased fuel costs are accounted for, the fuel cost-adjusted, load weighted, average LMP (locational marginal price) was 4.2 percent lower in 2004 than in 2003, \$39.49 per MWh compared to \$41.23 per MWh. (page 26)

Conclusion

This letter details a few of the significant flaws in this very dated Draft. However, by inference, this letter also notes the necessity for RTOs to continue to refine the independence of their transmission system operations, market designs, market rules and oversight of the RTO market by market monitors. PJM is committed to continue to refine its transmission system and electricity market operations and market oversight and fully intends to conscientiously monitor the competitiveness of PJM's electricity market - which includes the electricity market in the ComEd control area.

Sincerely,



W. Scott Miller, III
Executive Director, State Relations

Enclosure
wsm/mbc